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Transformation accelerates - Sky raises FY22 guidance following completion of cost review

Following the completion of the first phase of a rigorous cost review and consideration by the Board, Sky New Zealand has today provided significantly improved guidance, lifting the midpoint of previous EBITDA and NPAT forecasts for the FY22 financial year by 27% and 96% respectively.

Highlights

- Operating costs reduction of an additional \$35m to be delivered in FY22¹, including \$26m of recurring cost reduction and \$9m of one-off savings
- Full year impact of recurring annualised cost savings to deliver an additional \$40m to \$45m p.a.¹
- As a result, EBITDA guidance increases from \$115m-\$130m to \$150m-\$160m and NPAT guidance increases from \$17.5m-\$27.5m to \$40m-\$48m²
- Additional recurring savings targeted for FY23 and beyond through longer-term transformation initiatives
- Sale of Sky's Mt Wellington properties progressing well but not yet finalised and therefore not included in guidance. An announcement of the terms of sale is expected to be made shortly when negotiations and signature of a definitive agreement are complete
- Cost reset combined with revenue growth to deliver increased levels of free cash flow.

Cost review

As indicated at Sky's recent Annual Shareholder Meeting, management, led by Sky Chief Executive Sophie Moloney, have implemented a rigorous review of every cost and capex line throughout the business, with the objective to deliver additional cost savings beyond the level indicated in the FY22 and 3-year targets previously advised to the market.

Sophie Moloney commented: "I am very pleased to report that the team has identified significant savings as a result of this process. Our firm strategic focus is on growing revenues and reducing operating costs, particularly against the background of the step-up in rights costs to secure the sports and entertainment content that matters to our customers. We've sought to uncover opportunities that are starting to reset Sky's cost base, leveraging the learnings from operating in a Covid-impacted environment as well as challenging the way we operate our business across every area of spend.

"I've been particularly pleased with the significant level of engagement within the business to identify the opportunities available to us to meet our cost-out objectives without impact on our core revenues. The identified cost savings in FY22 are focused on areas of third party spend across the business, including our vendors and contractors, our rights, how we produce and market our content, and our capex profile."

¹ Compared to previous FY 2022 forecasts. In addition to a \$5m - \$10m target of non-programming operating cost savings advised on 25 August 2021.

Sophie added: “Sky’s enhanced data and analytics capability has also been instrumental in validating initiatives and importantly, to provide confidence that the targeted programme of savings will be delivered without compromising the needs of our customers.”

\$m	FY22 savings¹ (recurring)	FY22 one-off savings (incl Covid related)	Total FY22 savings	FY22 savings¹ p.a. (recurring/annualised)
Opex savings	\$26	\$9	\$35	\$40-\$45
Capex saving	\$5-\$10		\$5-\$10	
Total savings	\$31-\$36	\$9	\$40-\$45	

“As part of this exercise, we have also identified a number of medium to longer-term transformative initiatives that are expected to deliver further savings in and from FY23. More details will be provided when the savings are fully quantified.”

FY22 one-offs include a number of rebates and cancellations due to Covid-related impacts during the 2021 calendar year.

Property Sale

Negotiations with the preferred party for the sale of Sky’s Mt Wellington properties are progressing well, with most commercial terms broadly agreed. The agreement will include a leaseback of the building known as Studio One. Given negotiations are still ongoing, today’s revised guidance does not include any profit or cash impact arising from this sale process.

Revised Guidance

The current financial year marks a positive inflection point for the business, with guidance provided at Sky’s annual results presentation in August reflecting a return to revenue growth after a number of years of decline. Despite the impact of recent Covid restrictions on Commercial revenues, continued growth in core subscriber revenue has provided confidence that allows Sky to narrow the previous guidance range.

As a result of the improved outlook for revenue, EBITDA, NPAT and capex, Sky’s FY22 guidance, net of any impact from the expected gain on sale of property assets, has been increased to:

\$m	Previous guidance³	Revised guidance²
Revenue	715 – 745	725 - 745
EBITDA	115 – 130	150 - 160
NPAT	17.5 – 27.5	40 – 48
Capex	50 – 60	45 - 50

² Based on the Company’s best estimates of the realisable savings which are subject to delivery, and no adverse change in operating conditions, including future economic impacts flowing from Covid-19, or any extraordinary items or accounting changes (e.g. the potential impact of SaaS).

Capital management

Sky will report its first half results on 24 February. As commented by the Chair at the ASM in October, the Board is reviewing the company's capital structure and has now appointed external financial, legal and tax advisers to assist in determining the most appropriate capital management strategy, including the future dividend policy. The outcome of this review will be presented, as previously advised, at the time of the first half results announcement, subject to Board approval and the successful completion of the sale of the Mt Wellington properties.

ENDS

Chief Executive Officer Sophie Moloney and Interim Chief Financial Officer Andrew Hirst will host an investor webcast and call at 10:00am (NZDT) to discuss today's announcement. Details on how to participate are as follows:

To watch the live webcast: <https://ccmediaframe.com/?id=1ZsVMIOI>

To register for the conference call: <https://s1.c-conf.com/diamondpass/10018373-wh3i4k.html>

Registered participants will receive their dial in number upon registration. Only those participating via the conference call will be able to ask questions.

A replay of the briefing will be made available on the company's website as soon as practicable after the event at: <https://www.sky.co.nz/investor-centre/results-and-reports>.

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